

May 5, 2005

Good morning Representatives. Thank you for asking me to discuss Michigan's forest industry this morning.

My name is Paul Call, I'm the Forestry Services Manager at Weyerhaeuser in Grayling. I have been employed in the forest industry for 30 years, the last 26 in my home state of Michigan.

Weyerhaeuser operates an oriented strand board mill in Grayling and a hardwood sawmill in Lewiston. In addition, we have a box plant in Three Rivers and a Customer Service Center in Detroit. We have had a presence in Michigan for nearly 25 years.

I am responsible for supplying the Grayling mill with approximately 360,000 cords of pulpwood annually and the Lewiston mill with 7 million board feet of high quality hardwood sawlogs annually, sourced entirely from the forests of Michigan. Our Grayling mill is the largest consumer of wood in the Lower Peninsula and is the third largest consumer in the state.

Weyerhaeuser built the Grayling mill in 1982. Since that time we have enjoyed considerable success due to an excellent workforce, available raw materials at competitive costs, and continued investment of capital from Weyerhaeuser Company.

Recently, the availability and cost of raw material (wood) has changed considerably. The changes have not only affected our mill, but virtually every mill in Michigan and nearly every major mill in the Lake States. There are several reasons this has occurred, but I believe the major causes can be narrowed to two. I will discuss both.

The first reason has been the gradual loss of logging capacity in our region over the last 5 or 6 years. Until the last year and a half, the forest products industry, in general has been depressed. There have been some segments of the industry that have remained strong, but not all segments at the same time until recently. During this down cycle, delivered prices for forest products dropped as well as demand. Costs for logging companies continued to increase even though selling prices of their products did not. Profit margins shrank or disappeared completely.

The result was that many logging companies either maintained their businesses with minimal re-investment, downsized, or in some cases got out of the business entirely.

When business conditions improved in our industry, almost simultaneously across all segments, we found as many of us suspected, that there was not enough logging capacity to fill the pipeline when all markets were wide open. Since the upturn in the market, we have seen some logging companies expand and many have again began to upgrade equipment. With the prospect of better demand and higher prices we are seeing more

investment in logging that will, in time, increase the overall logging capacity. This change is a direct result of simple supply and demand economics and capitalism. The market will correct this problem.

The second cause of the shortage of wood in our region is the availability and cost of stumpage (standing timber). According to the latest US Forest Service Forest Inventory Analysis (FIA), Michigan is growing three times as much wood as we harvest each year. This number however has to be tempered somewhat, because FIA considers all forestland to be available to the market, which we know is not true in the real world. However the general trend of a ever-increasing standing timber inventory in Michigan is evident. The attached graph shows the growth and harvest comparisons of eight timber producing states. Only Pennsylvania has a surplus near that of Michigan.

With a growth to harvest ratio of 3 to 1, it is hard to believe that Michigan is a net importer of pulpwood. In 2001, Michigan imported over 100,000 cords of pulpwood to supply our mills, while growing over 7 million cords more than was harvested that year. We have the resource, we have the mills to utilize the resource, and we need the jobs associated with the entire manufacturing process. We should do a better job of utilizing this renewable resource to improve Michigan's economy.

The forest industry, like most industries today, compete in a global economy. Our primary competitors are Canada, Europe, and to an increasing degree, the southern hemisphere. Michigan mills need to remain competitive in the marketplace in order to continue to attract corporate capital to keep our mills up to date.

I'll use our industry, OSB, as an example. We make the 4' by 8' sheets of board that are used in home construction. There are differences in product quality across various manufacturers, but for the most part we are in the commodities business. Selling price to the customer is one of the key factors in maintaining market share. Canadian mills have several huge cost advantages over US mills. Our energy costs, labor costs, pollution control costs, and property taxes are substantially higher than Canadian mills. Our wood costs are another significant disadvantage for us. Canadian stumpage costs are tied to the selling price of the product being produced at the mill. So when markets for the finished product are poor and prices drop, Canadian stumpage rates are reduced thus lowering the cost of production for Canadian mills. In the US, this is not the case. Stumpage prices are strictly driven by supply and demand for the standing timber. US mills must bear this cost, regardless of market conditions for the finished product.

For comparison purposes I have included the table below showing current wood costs by region in the US and parts of Canada. This information is from the International Wood Report, an independent publisher of forest industry news. I have also included the same table from two years ago. Note the dramatic changes that have taken place. The Lake States are now the highest cost region vs, the middle of the range in costs just two years ago.

## INTERNATIONAL WOODFIBER REPORT WOODFIBER PRICE TABLES

### COMPARATIVE NORTH AMERICAN REGIONAL HARDWOOD ROUNDWOOD PRICES

	Q1	Q4	Q3	Q2	Q1	% change
US \$/green ton equivalent	2005	2004	2004	2004	2004	2005/04
US South Atlantic	\$28	27	25	24	28	0%
US South Central	\$30	28	27	25	27	11%
US Northeast	\$36	30	30	30	32	12%
US Great Lakes	\$39	35	33	31	31	26%
Eastern Canada *	\$35	34	31	30	30	17%

Hardwood roundwood, excludes woodchips and softwood. Estimated, region-wide domestic market average price. Green ton equivalent. Delivered to mill. \*Canadian fiber prices, reported in US, increasingly affected by exchange rates.

	Q1	Q4	Q3	Q2	Q1	% change
US \$/green ton equivalent	2003	2002	2002	2002	2002	2003/02
US South Atlantic	\$28	26	23	22	24	16%
US South Central	\$29	27	23	23	27	7%
US Northeast	\$23	23	23	24	24	-4%
US Great Lakes	\$27	25	25	25	25	8%
Eastern Canada *	\$23	23	23	23	23	0%

Hardwood roundwood estimate, excludes woodchips and softwood. Estimated, region-wide domestic market average for hardwood aspen, beech, birch, oak, poplar, and mixed hardwood pulpwood. Green ton equivalent. Delivered to mill. Does not include chip costs. Pulp yields of key regions/species vary. \*Prices reported in US\$.

My purpose here today is to give you background information on our industry here in Michigan. The wood supply situation for some mills is very tenuous. For others it is a concern at the very least. Our industry provides about 150,000 jobs in the state. We want to retain all of those jobs and hopefully add new ones. However, all of the jobs are dependant on a reliable source of raw material at a competitive cost. In today's world of large corporate organizations, those mills that keep their costs competitive will attract further corporate investment in capital expenditures. Without adequate capital, our mills will fall further behind in cost competitiveness and will eventually enter a downward spiral with ever increasing costs due to downtime and reduced efficiencies. Corporations need the assurance that enough wood will be available at competitive costs to feel secure to make the major capital investments needed to keep a mill up to date.

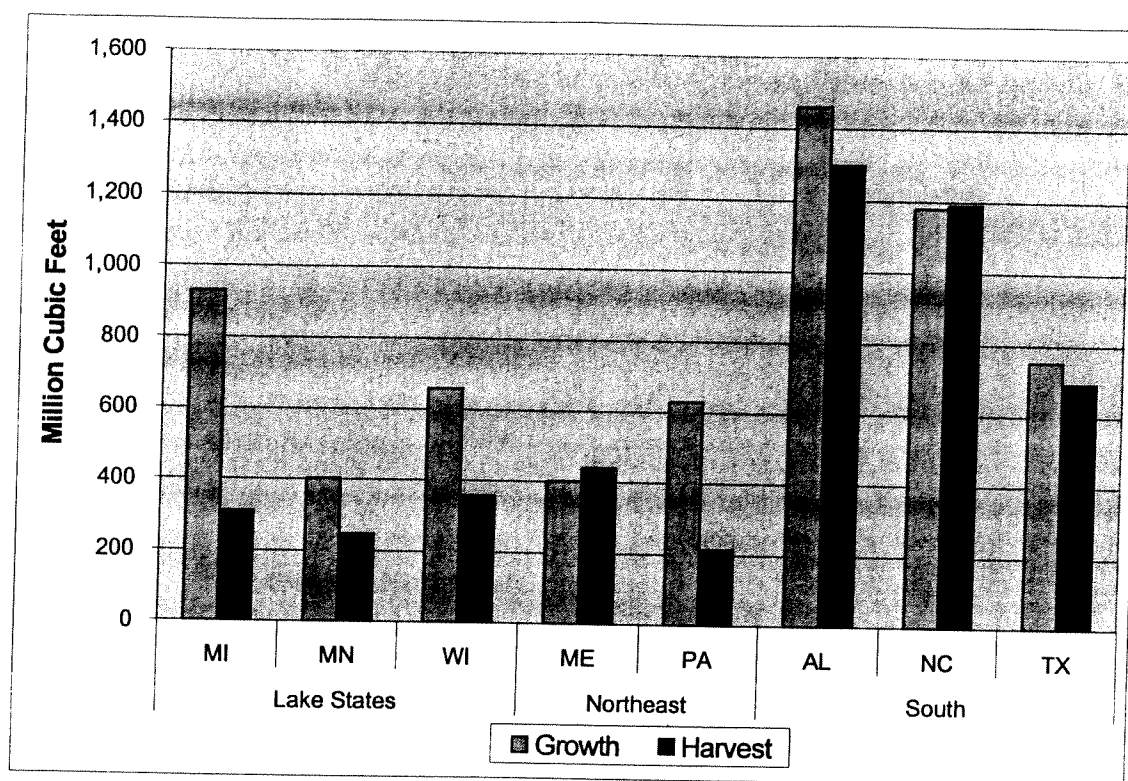
Through actions of the legislature and our state employees we can increase the outputs from State Forest lands and from private forestlands. There are significant opportunities on both public and private lands to intensify forest management efforts that will increase growth and outputs. Private industry, both large and small, can make a significant impact on private timber availability by investing in more forestry professionals in the field to assist landowners in forest management projects. State government can assist by developing policies that encourage long term forest management and investment for private landowners.

As a matter of reference, I have enclosed copies of two letters written by former Chief of the Forest Management Division of the DNR, Hank Webster to our company in 1980. In these letters Dr. Webster states that "this part of the country urgently needs economic diversification, that efforts in many economic sectors will be needed to achieve

meaningful diversification, and that forest resources can make an important contribution as part of this effort.” It is interesting to note that as time passes history does repeat itself. Today we find Michigan’s economy again struggling. Our desire is that our present government officials will make the same strong commitment that was made in 1980 and referenced in Dr. Webster’s other letter when he stated, “we have adopted a new policy for state forests that targets intensified timber management as a principle element of state land management programs.” This is the type of leadership we hope to see within state government that we believe will retain our present forest based economy and expand it over time. We would welcome the opportunity to continue to work with state government to maintain our industry which is so vital to many communities throughout the state.

Thank you for the opportunity to be with you this morning.

Figure 41. Comparison of Timber Growth and Harvest Among Eight States, Circa 2003.



## 7.1 Physical Timber Availability

Table 10. Comparison of Inventory, Growth and Harvest Relationships in Eight States, Circa 2003.

(1) Region	(2) State	Million Cubic Feet				(7) Growth / Harvest	(8) Growth % of Inventory	(9) Harvest % of Inventory
		(3) Inventory	(4) Growth	(5) Harvest	(6) Growth Less Removals			
Lake States	MI	27,483	930	311	619	3.0	3.4%	1.1%
	MN	15,273	404	249	155	1.6	2.6%	1.6%
	WI	19,434	658	359	299	1.8	3.4%	1.8%
Northeast	ME	22,342	402	442	(40)	0.9	1.8%	2.0%
	PA	29,940	630	216	414	2.9	2.1%	0.7%
South	AL	28,704	1,460	1,299	162	1.1	5.1%	4.5%
	NC	30,325	1,181	1,191	(11)	1.0	3.9%	3.9%
	TX	15,657	752	694	58	1.1	4.8%	4.4%
TOTAL		189,158	6,418	4,760	1,658	1.3	3.4%	2.5%

JACOB A. HOEFER  
CARL T. JOHNSON  
E.M. LAITALA  
HILARY F. SNELL  
HARRY H. WHITELEY  
JOAN L. WOLFE  
CHARLES G. YOUNGLOVE



WILLIAM G. MILLIKEN, Governor

## DEPARTMENT OF NATURAL RESOURCES

HOWARD A. TANNER, Director

STEVENS T. MASON BUILDING  
BOX 30028  
LANSING, MI 48909

February 19, 1980

*Rose*

Mr. George Weyerhaeuser  
President  
Weyerhaeuser Company  
Tacoma, Washington 98401

Dear Mr. Weyerhaeuser:

We have greatly enjoyed recent discussion with your people including the visit by Bob Rankle, John Austin, Thor Hansen, and others last week. We are most hopeful that the new Weyerhaeuser flakeboard plant will be located in Michigan.

A substantial part of the timber requirements for the plant can be supplied from our state forests in the vicinity. Timber growth and harvest is one of the major purposes of management for our state forest system. Indeed that purpose has been strengthened within the past year by a new policy statement adopted by the Michigan Natural Resources Commission without dissenting vote. That policy statement directs us to identify primary purposes of management by geographic areas in order to better separate conflicting uses. And within that approach, it directs us to strengthen timber growth and harvest. These directives provide the basis for a significant and sustained strengthening of overall forest resource management and an important basis for strengthening and intensifying timber management. We also note that other purposes of management that are important in the northern lower peninsula are distinctly complementary with timber management. Wildlife is a case particularly in point, and for that reason our Wildlife Division is most supportive of your locating in Michigan.

Turning to specifics, we are making progress in strengthening state forest timber sales. A budget request for additional personnel to reach our market determined allowable cut has already been funded in part. The rest of this request is included in Governor Milliken's budget request to the Legislature for the fiscal year that begins October 1, 1980. These funds are being requested and appropriated in a form that earmarks them for timber sales. A large majority of the new personnel being funded will be assigned in the northern lower peninsula in recognition of major opportunities there that require strengthened staffing. As markets improve in future years, we will request further funding to move closer to our growth determined allowable cut.



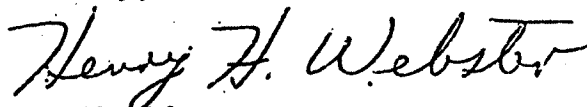
Mr. George Weyerhaeuser  
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February 19, 1980

We are also attempting to strengthen programs of information and assistance for non-industrial private forest owners. We have a history of good working relationships among the agencies and organizations involved in such programs. We are completing a new and comprehensive agreement to further strengthen these relationships into an improved and unified functional program. Landowner assistance efforts by Weyerhaeuser people would be a most complementary and valuable part of such a program. These unified efforts would be an important indirect support for your procurement program, as well as those of other forest products firms.

There is an evident strengthening of public interest in effective forest resource management and development in Michigan. It goes beyond these program specifics, but ultimately supports them. This public interest would also strongly support your new plant and associated activities. This strengthening public interest grows out of a simple but most important factor. That factor is widening recognition that this part of the country urgently needs economic diversification, that efforts in many economic sectors will be needed to achieve meaningful diversification, and that forest resources can make an important contribution as part of this effort.

Again, we are most hopeful that the new Weyerhaeuser flakeboard plant will be located in Michigan. We have enjoyed recent discussions. And we look forward to working with your people in a new and mutually beneficial relationship once the plant has been located. In a more personal vein, I look forward to renewing and strengthening acquaintances with Charlie Bingham, George Staebler, Bill Lawrence, and others.

Sincerely,



Henry H. Webster  
Chief  
FOREST MANAGEMENT DIVISION

HHW:djt

BCC: Wayne H. Tody  
Raymond Schofield  
Gerald A. Rose  
Jeffrey T. Olson  
Wayne Workman  
Jim Donaldson

JACOB A. HOEFER  
CARL T. JOHNSON  
E. M. LAITALE  
HILARY F. SNELL  
HARRY H. WHITELEY  
JOAN L. WILKE  
CHARLES G. DUNGLAVE



WILLIAM G. MILLIKEN, Governor

DEPARTMENT OF NATURAL RESOURCES

HOWARD A. TANNER, Director

STEVENS T. MASON BUILDING  
BOX 30028  
LANSING, MI 48909

January 18, 1980

Mr. John Austin  
Land and Timber/Raw Material  
Planning  
Weyerhaeuser Company  
Tacoma, Washington 98401

Dear John:

The Forest Management Division, Michigan Department of Natural Resources, is committed to the continued management of state-owned forest lands for multiple resource values. As timber harvesting is a basic element in our management efforts, we in the Forest Management Division have as a primary goal to sell our entire allowable annual cut of 75.8 million cubic feet each year.

During the past two years our position regarding this goal has been strengthened through a number of events. Briefly, we have adopted a new policy for state forests that targets intensified timber management as a principle element of state land management programs. During January, 1980 we added four new positions to our field staff exclusively for increasing timber sales. We expect a further increase in this category later this year. In addition, the Governor's "State of the State address" specifically mentioned timber production as an important goal.

On the following page you will find a table detailing the total increase in timber sales that will be possible in the northern lower peninsula when we are fully staffed. In terms of aspen, the allowable cut represents an additional 95,000 cords available each year from state-owned land.

We welcome your firm's continued interest in Michigan. I assure you that the state forest allowable cut will be offered for sale given adequate markets and manpower.

Sincerely,

*Henry H. Webster*

Henry H. Webster  
Chief  
FOREST MANAGEMENT DIVISION

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